

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
CALIFORNIA CAPITAL ACCESS PROGRAM (CalCAP)**

Meeting Date: October 27, 2010

***Consideration and Approval of Proposed Increase in CPCFA Matching Contribution to
Loss Reserve Accounts for New Enrolled Loans in the CalCAP Program***

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SUMMARY. Staff requests approval to increase the matching contributions currently made by the Authority to its Participating Financial Institutions' (PFI) Loss Reserve Accounts in anticipation of receiving Federal and State Funds. Upon approval and receipt of Federal and/or State Funds, CalCAP will increase the matching contributions from 2% - 3.5% to 4% - 7%.

BACKGROUND.

Business Model. The CalCAP Program is designed to encourage lending to small businesses that might otherwise be outside the normal underwriting criteria of PFIs. To accomplish this, CalCAP establishes a loan loss reserve account for each in which borrowers and lenders are each required to deposit between 2% and 3.5% of the eligible loan (a combined deposit of 4% - 7%). Historically, CalCAP matched the total contribution of the borrower and lender.

Beginning in January 2009, several key statutory and regulatory changes were enacted in order to create a more sustainable and viable program. Through regulation changes, CPCFA amended the small business definition and lowered the amount a business could borrow within a three year period from \$2.5 million to \$1.5 million. The biggest impact was the statute change, which allowed, but did not require, CPCFA to reduce the contribution amount it historically made by half. After these changes, CalCAP reduced its contribution to match only the lender contribution.

Need for a temporary change. CalCAP anticipates receiving no less than \$84 million from the Federal Government, pursuant to newly enacted legislation. In order to participate in the federal program CalCAP will be required by the Federal Government to increase the matching contribution made to its PFIs' loss reserve accounts. CalCAP also may receive an additional \$6 million from the State of California, some of which will be targeted to assist businesses located in Severely Affected Communities. CalCAP intends to raise the contribution amounts where the funding is derived from either the federal program or the funds coming from the State.

Stakeholder Involvement. On October 21, 2010, staff held a *Lender Roundtable Conference Call* to provide an open forum for staff to discuss the upcoming funding and present the proposed increase to the matching contributions. All of the PFIs are excited about the upcoming change.

ADDITIONAL CHANGES. Staff anticipates returning to the Board soon with additional regulation changes to enable full participation in the federal program and expand borrower use of the CalCAP.

Agenda Item 4.G.

RECOMMENDATION. Staff recommends the Authority direct staff to increase the matching contributions made to its Participating Financial Institutions' loss reserve accounts from the current amounts to the higher pre-2009 amounts (4%-7%) when Federal or State Funds are available for the CalCAP Program.